FINANCING YOUR CHINA PROJECTS

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ABSTRACT

This is a study on the various financing methods available for China direct investment projects. Only alternatives feasible to Hong Kong companies were covered. Common methods, like equity listing, debt instruments issuing and project financing, were discussed with the emphasis on real world applications. Many uncommon or non-traditional methods, like venture capital, export credit, supplier's financing, customer financing, counter-trade, franchising and staff financing were introduced too. A lot of cases were quoted as typical examples. The value of this paper is mainly on the scope of its coverage and the real cases listed. It is believed that similar works have never been done in Hong Kong before.

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Abbreviations

SEHK	the Stock Exchange of Hong Kong Ltd
HKMA	Hong Kong Monetary Authority
PBOC	the People's Bank of China (the central bank of China)
MOFTEC	the Ministry of Foreign Trade & Economic Cooperation of China
Listing Rules	"Rules Governing the Listing of Securities", SEHK

I. INTRODUCTION

China was ranked the second largest recipient of foreign direct investment (after the US) in 1993. About US$26 billion capital was invested by foreign investors up to the end of 1993. The share of foreign direct investment in the national fixed investment went up to 12.3% in 1993 from 2.5% in 1980's.(*SCMP 25 Jan 1995*) Among all regions, the majority came from or through Hong Kong (65% for the period from 1987 to 1993). Together with other reasons, like the proximity to China, the good financial infrastructure, the well-established legal system and advanced communication technology, Hong Kong has evolved into a major financing conduit for China.

In the past few years, huge sum of money were raised in Hong Kong by companies investing in China. The methods they used includes debt, equity and other mixed means. However, up to now there are no complete statistics and survey on all the fund raising activities aimed at China investments (some statistics in the market only cover listed companies). It is partly because of the difficulties in identifying the usage of funds in each case. Furthermore, it is hard to classify a company as "China Concept" or "Red Chips". Most of the companies in Hong Kong are actually doing, directly or indirectly.

This study is aimed at the discussion of nearly all applicable fund raising methods for China projects (defined as direct investment in this paper). It is a survey and study on the techniques and financial structures used by Hong Kong companies both listed and unlisted, and including the representative/subsidiary companies of China state-owned enterprises in Hong Kong. Many non-traditional techniques will also be discussed. But no basic theories will be included for many common topics. Though the issue of 'H' shares is very hot, due to its irrelevance to Hong Kong companies, it was ignored in this paper.

I believe that this is the first paper covering the project finance in Hong Kong & China in so wide a scope and covering so many local examples. Moreover, I have tried to use the most current information in this paper. Some of the statistics are actually just come out in recent weeks. This has added the value and the difficulties of this study. I hope this study can provide a new view of the fund raising activities in practice and provide some insight to those companies seeking financial sources.

II. LITERATURE REVIEW

There are not many materials written on the corporate finance environment in Hong Kong. The most representative magazine is "Asiamoney" which is the Asia version of "Euromoney". All reference materials are disseminated. Most of them focus on securities market only, particularly the equity market. For example, the "Securities Journal", "the Practitioner's Guide to Listing Rules", "the Practitioner's Guide to Code on Takeover & Merger and Share Repurchase" and Martin Sarbin's "Corporate Finance..." (1987).

The literature in the area of debt financing are rare. The study made by Liu in the article "(Hong Kong) Money Market & Capital Market" (Ho, Scott & Wong, 1991) is one of few academic articles on the debt market in Hong Kong. However, his data only counts up to 1989 and the emphasis was not on fund raising. There is a guidebook called "The Practitioner's Guide to Bonds for Asian Issuers" published recently. However, due to the time limitation I can't go through it in details. But in general, its coverage in Hong Kong is still limited.

For project finance, one basic reference is the "Introduction to Corporate Finance" published by the Chartered Institute of Bankers. Though it focused on the UK market, it provides a basic description of various financing methods. However, no specific financial engineering techniques were introduced. The book "Export and Project Finance" by Euromoney Publication is a more advanced and practical reference. With the focus on export financing, it gave a lot of typical cross-border project financing structures with real examples given. It is a very good reference for financing large China projects which usually involves importation of plant and equipment from overseas.

In the area of venture capital and direct investment, the only one comprehensive local reference is the "Asian Venture Capital Journal" and its annual guidebook. It covers the most current developments and market statistics. The most valuable information to project initiators and financial advisors is the contact methods and investment strategies of all venture capital/direct investment funds in Asia.

The lack of reference information in project finance and financial engineering the Hong Kong / China is mainly because the market is relatively new and thin here compared with other financial centres. There are only a few people who are familiar with the topic. They are too busy and are earning premium income that it is not justified to spend time on writing academic things. Therefore it is quite expensive to obtain information in this field. For example, the "1994/95 Guidebook" of the Asian Venture Capital Journal costs about HK$1,100, and a 4-day training course held by Euromoney Institute of Finance on project finance in May 1995 was priced at US$2,895 per person. In addition, many of the reference materials are usually not found in the public or university libraries. Therefore, I have spent much time standing in book stores copying figures by hands in order to obtain updated and useful data.

III. EQUITY FINANCING

Listing Equity Shares In Hong Kong

The Stock Exchange of Hong Kong (SEHK) has long been a major place to raise capital for company growth. The following table shows the amount of funds raised through the exchange in the past few years:

(For the year ended 30 June, and in HK$ million)

Total fund raised by	1990	1991	1992	1993	1994*
Equity Shares	16,099	28,284	45,070	109,319	67,175
Investment Companies	2,105	725	2,520	1,087	2,431
Unit Trust/Mutual Funds	0	117	400	792	390
Debt Securities	2,003	603	3,880	15,100	337,598
Derivatives Warrants	1,596	2,367	2,868	6,280	11,913
Share Option Schemes	230	392	767	1,013	2,234
Total Amount	22,033	32,488	55,505	133,591	421,741

**: provisional figure*

(Source: Annual Report of SEHK 1994)

And as at 30 June 1994, the total number of securities listed in the SEHK grew by 24% up to 965, of which 517 (54%) were ordinary shares.

Methods of Listing in Hong Kong

1. Offer for subscription

By offering new shares to be listed, it is the most common way of IPO (Initial Public Offering). Some examples in recent years with strong China concepts are listed below:

Company	Fund Raised	Use of Proceeds in China	Sponsor	Date of Listing
Wing Shan Intl Ltd	HK$45.9 m	30% for repayment of loans from China partner, 27% for buying stock for China plants, 22% for buying spare parts for China plant	Peregrine Capital & China Development Finance	Mar 93
Siu Fung Ceramic Holdings Ltd *	HK$562 m	43% fro investment in China JVs; 4% for establishment of laboratory in China	Wardley Corporate Finance	Oct 93
Yugang Intl Ltd	HK$109.8	20% to set up additional sales offices in China	Peregrine Capital	Oct 93
Hualing Holdings Ltd	HK$192 m	45% for repayment of loan to finance construction of production lines in China,; 21.6% for investment in China JVs	Wardley Corporate Finance & Peregrine Capital	Dec 93
Chaifa Holdings Ltd	HK$54.06 m	33% for new retail outlets in China; 22% for business development & marketing	Standard Chartered Asia	Feb 94
Cheung Tai Hong Holdings Ltd	HK$239.9 m	44.9% for expansion of business in China	Peregrine Capital	Mar 94
China Pharmaceutical Ent & Inv Corp Ltd	HK$195.3 m	83% for expansion of production facilities in China	Peregrine Capital	Jun 94
Kingmaker Footwear Holdings Ltd	HK$108 m	45% for acquisition of factory premise; 39% for building staff dormitory, 6% for expansion of production facilities	Lippo Asia Ltd	Sep 94
China-HK Photo Products Holdings Ltd	HK$450 m	28% for JV in China, 9% for representative office in China	Wardley Corporate Finance	Sep 94
Whimsy Entertainment Co Ltd	HK$50 m	94% for development of projects in China	HSBC Corporate Finance & New Japan Securities	Mar 1995

* Copy of the front page of the prospectus is attached in the Appendix 1

(Source: Prospectus of related companies)

In the past few years, the listing requirement was basically HK$100 million minimum capitalization. However, since 15 Sep 1994 in order to emphasize the profitability of listed companies, the new applicants for listing must fulfill the following profit record requirements:

1. Must have trading record of not less than 3 years;
2. Profit attributable to shareholders and before extraordinary items ("profit") in the most recent year must not less than HK$20 million;
3. "Profit" in the two preceding years in aggregate must not less than HK$30 million

However, the SEHK may grant exceptions to the following cases:

a. natural resources exploration companies;
b. newly formed "project" companies.

(Announcement of SEHK dated 1 Sep 1994)

In 1994, due to the slump in stock market, only 53 companies were newly listed in the SEHK. It is the lowest since 1990.

2. Offer for Sales

It is the offer of existing shares to be listed in the exchange. Since it reflects the "Cash-in" of existing shareholders, there is limitation of the amount to be less than 25% of the total shares offered. Of the sixty-eight IPOs in 1993, only 19 of them involved Offer for Sales.

3. Placing

In placing shares are not offered to the public openly. Instead, they are sold through merchant bankers or brokers to selected clients. It is regulated under the Appendix 6 of the Listing Rules. In particular, for newly listed companies, the size of placing must be greater than HK$25 million and there should be adequate spread of shareholders. Usually, placing is used by investment companies and companies already listed. In 1993, three out of the four investment companies listed in the SEHK went through placing.

4. Introduction

By introduction, companies are listed without transferring or issuing new shares or raising new capital. It is used normally when the company already has a wide spread of shareholders (through listing in other exchange or following a pre-listing placement). Though it does not generate new cash for the company, the listing can serve as a promise/attraction in the previous placement. In addition, it widen the future fund raising channels (as discussed in the following section). In 1993, only two companies were listed in the SEHK by introduction.

5. "Shell" Re-activation/Acquisition

It is the takeover of a dormant company ("Shell") by a new company and usually new assets or business are injected. This is also called "Back-door" listing because it can by-pass the regulations and requirements of IPO. The first "Back-door" listing relating to China is the acquisition of Union Globe Development Ltd by Guangdong Investment Ltd in 1987. Within the 33 "Red Chips" stocks as defined by Dao Heng Securities, 19 were listed by back-door listing. The details of most of these acquisitions are listed in Appendix 2 for reference.

"Back-door" listing is a short-cut to obtain a listing status. Due to the under-development of China collateral laws, direct overseas borrowing is very difficult for China companies / companies holding China projects as major assets. Seeking a back-door listing in Hong Kong is an attractive way-out. Furthermore, back-door listing can also avoid the problem of difference in accounting systems, as normal direct listing of China enterprises or China business (e.g. by 'H' shares). The time saved from the approval process can allow the purchaser to inject new assets into the shell.

All "Back-door" listing must be approved by the SEHK and the Securities & Futures Commission (SFC). In 1989 and 1993, SEHK tried to curtail this type of activity. The SEHK has the right to treat an acquisition and injecting of new assets as new listing if the business nature has changed significantly after the transaction. However, there were still many examples in recent years (as shown in Appendix 2). The premium for selling the "Shell" had gone up to HK$200 million in 1993 from HK$100 million in 1992 ("The Practitioner's Guide" 1993). In order to protect the minority shareholders, under the "Hong Kong Code on Takeover and Mergers", the purchaser is normally required to make general offer to all other shareholders at same price and terms. In addition, to maintain its listing status, the new management must also cause the public holding to restore at least 25% after the takeover.

6. Reverse Takeover

In reverse takeover, the new management obtain control of a listed company by injecting new business or assets in exchange for shares. It is called "reverse" because the value of the new business or assets dominate the old ones, so that the original majority shareholder become minority after the transaction. In practice, it does not differ much with "Shell" acquisition above. Therefore SEHK requires the new business to satisfy criteria for new applicants under Chapter 8 of the Listing Rules.

Methods of Raising Further Equity by a Listed Company

1. Right Issues

By allotting new shares in proportional to existing holding, a company can expand capital base without diluting anyone's shareholding and earning. Usually, "renounceable documents" are issued to shareholders who can sell the right (to subscribe new shares at discounted price) in the market if they don't want to top up further capital. In 1993, there were 23 right issues in the SEHK, and HK$9,266.07 million was raised (accounted for 12% of all equity funds raised in the same period). Those thought to be China projects related are listed below:

COMPANY	RIGHT ISSUES AMOUNT	ALLOTMENT RATIO	DATE
Shougang Concord Intl Ent Co Ltd*	1,973.75	5 for 2	June 93
Continental Mariner Investment Co Ltd*	1,038.40	1 for 1	June 93
Chuang's Consortium Intl Ltd	322.79	1 for 2	July 93
Shanghai Intl (HK) Ltd*	356.95	5 for 2	Aug 93
Tian An China Inv Co Ltd	199.39	1 for 8	Sep 93
China Aerospace Intl Holdings Ltd*	1,116.31	2 for 1	Nov 93

* companies listed by back-door listing in 1993

(Source: Factbook 1993)

It is not surprising that many China background companies listed through the back-doors initiated large scale right issues to raise capital soon after the acquisition of the shells.

2. Open Offer

It is the issuing of new shares to existing shareholders without "renounceable documents" and the right to subscribe shares may not be proportional to current holdings. There was no open offers in 1993 in the SEHK.

3. Placing

It is the issuance of new shares directly to designated investors through merchant bankers or brokers. Since it will dilute shareholdings of existing shareholders, it must be authorized by general mandate or general meeting of the company. In 1993, due the booming stock market, over 120 companies raised HK$28,473.38 million through placing in the SEHK. It accounted for the majority (37.3%) of all equity funds raised in that period.

4. Consideration Issue

It is the issuance of new shares as consideration in a transaction of takeover, merger or the division of an issuer. It is subject to the disclosure requirement number 4 of the Listing Rules. In 1993, HK$4,649.38 million was raised through consideration issue, occupying 6.1% of total equity fund raised.

5. Warrant Exercising

Warrant is the option of buying the company's new share at a fixed price within a certain period of time. It is usually issued as "sweetener" at IPOs or right issues. When the warrant holders exercise their warrants, they need to pay cash to the company in exchange for new shares. Therefore, the company can obtain new capital. However, it is exercised at the option of the warrant holders, instead of at the will of the company. Normally, most of the warrant holders only exercise the warrant at or near the maturity. In 1993, HK$14,246.46 million was raised (obtained) through the exercise of warrants.

Listing Equity Shares In Overseas Market

In recent years, due to the changing environment in Hong Kong, such as the tightening of the tightening of listing requirements, the strengthening of supervision from government and oversupply of China concept stocks, companies started to tap the overseas capital markets.

United Kingdom

Traditionally, the most popular second listing place for Hong Kong companies is the London Stock Exchange (LSE). The first "Red Chip" stock listed in the LSE was Cathay International Holding PLC (CIH). CIH, formerly known as Stonehill Holding, was a poorly performed company before the acquisition by Mr. Wu Zhen Tao in Feb 1993. Mr Wu have strong relationship with Beijing municipal government. After the acquisition, the company placed 48.8 million new shares, raising GBP30.5 million to fund the purchase of 60% interest in a project company, Landmark Ltd, in Beijing. It now involves mainly in hotel management and property development activities in China.

United States

The U.S. market is believed to the most desirable place to list China concept stocks because of their appreciation in China concepts. Most of these stocks were listed by ADR (American Deposit Receipts) in the U.S. market. ADR is a negotiable certificate that represent the ownership of a company's shares which remain on deposit in the issuer's home market. It provides several advantages to the issuers:

1. raise capital in the U.S. market;
2. diversify shareholders base;
3. fund mergers and acquisitions;
4. publicize the corporate product and image outside its home country.

In 1993, non-U.S. companies raised about US$11.1 billion through nearly 50 ADR offerings in the U.S. market, nearly doubled the 1992's figure. In 1994, the figure doubled again to US$20 billion, with Asia-Pacific issuers overwhelming the Latin American's as the top issuing region (Securities Journal, April 95). The ADR programs of China companies started in 1993 by four companies: Shanghai

Petrochemical, Shanghai Erfrangji, Shanghai Tyre & Rubber, and Maanshan Iron & Steel. In 1994, the US$625 million listing of the Huaneng Power International Inc was ranked as one of the largest ADR fund raising activities in that year.

Many Hong Kong companies were also listed in the U.S. market through ADR. Some examples with great China business are: C.P. Pokphand, China Strategic Investment, Champion Technology, Hopewell Holding and New World Development.

There were 4 types of ADR facilities:

1. Unsponsored ADR Program

   It is the issue by one or more depositories in response to market demand, without formal agreement with the company. This method is considered obsolete now.

2. Sponsored Level-I ADR Program

   It is the simplest method for companies to access the U.S. capital market. The Level-I ADR are traded in the OTC market. The company does not need to comply with the U.S. GAAP(Generally Accepted Accounting Principles) or full Securities and Exchange Commission (SEC) disclosure requirements. It is the fastest growing segment and the most popular method of the ADR listing up to now. In 1994, Level-I ADR accounted for 39% of total new ADR programs.

3. Sponsored Level-II and III ADR

   Companies that wish to list their securities on an exchange in the U.S. should use sponsored Level II program while those want to raise capital must use Level III ADR program. Each level requires different SEC registration and reporting, plus adherence to the U.S. GAAP. The company must also meet the listing requirement of the exchange that it chooses to list on. These two methods are also uncommon now.

4. Private Placement (Rule 144A) ADR (also called RADR)

   Through this program, a company can raise capital by placing ADRs to institutional investors in the U.S., avoiding SEC registration. It is the second major ADR program.

In 1992, the first notable China concept company, Brilliance China Automotive Holdings Ltd was listed indirectly in the U.S. market. Incorporated in Bermuda, its major asset was 51% interest in Shenyang Jin Bei Passenger Vehicle Manufacturing Company which manufactures, assembles and sells mini-buses in China (Securities Journal, Dec 1992).

Shares of China state-owned enterprises traded through ADR in New York is called commonly called "N" shares, in parallel with the "H" shares in Hong Kong. Active arrangers of ADR programs for China concept companies are: the Bank of New York, Citibank, Bankers Trust, Security Pacific and Morgan Guaranty Trust.

Canada

Besides the U.S. market, companies and merchant bankers are also seeking other financial centres which can offer more advantages to China project companies and China concept companies. Generally, their requirements are:

1. Loose regulation;
2. Low profit/trading record requirements;
3. Great interest of investors on the China market
4. Little supply of China concept companies

Australia and Canada were recently identified. The Vancouver Stock Exchange (VSE) in Canada introduced an Asian Board in Jan 1994. The listing requirement is much lower than in Hong Kong (compared with the section "Offer for Subscription" in "Methods of Listing in HK" above), e.g.

1. a). gained profit in at least 2 of the 3 previous years; &
   b). gained at least C$400,000 (about HK$2,240,000) in the most recent year; &
   c). possess at least C$5 million (about HK$28 million) net tangible assets.

or

2. Possess C$12 million (about HK$67.2 million) net tangible assets.

They also encourage back-door listing by Reverse Takeover. The typical way is to acquire a dormant listed shell and then raise further capital to acquire assets/ projects in China.

The first HK-based company listed on the VSE was Pacrim International Corporation, which obtained the listing status by back-door listing in Dec 1993.

In the Toronto Stock Exchange, the largest stock exchange in Canada, the first China project company appeared in Dec 1993 and C$100 million were raised through the listing. It was the South China Industries (Canada), which owns 80% interest in a large tire manufacturing plant in Guangxi, China.

Active arrangers for listing China concept companies in Canada are Scotia McLeod Inc, RBC Dominion Securities (Asia) Ltd and Richardson Greenshields of Canada (Pacific) Ltd. *(P.4-6 Canada Hong Kong Business, Mar/Apr 1994)*

Australia

For the Australian Stock Exchange (ASX), the listing requirements are also more favourable than Hong Kong's. They are summarized below:

1. minimum capitalization: A$1 million (about HK$5.6 million); or
2. the aggregated pre-tax profit the past three years amounts to at least A$1 million (about HK$5.6 million), and pre-tax profit for the 12 months expiring at the end

of month immediately preceding lodgement of the application for listing, amount to at least A$2,000,000 (about HK$11.2 million); or

3. has net tangible assets of not less than A$2,000,000 (about HK$ 11.2 million); and has binding contracts for the investment of at least 50% of its funds to be raised.

The last requirement favour project companies that do not have trading records but have viable projects in China. The requirement of HK$5.6 million aggregate profit in (2) is far less than the HK$20 million requirement in Hong Kong.

The following table shows several recent examples of China concept companies listed in the ASX:

COMPANY	BUSINESS	DATE OF LISTING	FUND RAISED
Guangdong Corp. Ltd*	Construction	Sep 1993	A$7.5 m
Canadian Real Estate (translated from Chinese)	Property Development	Jul 1994	A$8.75 m
OLS Asia Holdings Ltd	Decoration & Renovation	Oct 1994	A$14 m
Neptunus Intl Holdings Ltd	Pharmaceutical	Oct 1994	A$14 m
China Ying (translated from Chinese)	Manufacturing	Oct 94	A$14 m
Premier Pacific	Pharmaceutical	Dec 94	A$40 m

** 58.59% owned by Guangdong Investment Ltd (window company of Guangdong province and listed on SEHK)*

(Source: 11 Nov 94 Ming Pao, and 6 Dec 94 Wen Wei Po)

Venture Capital / Investment Funds

Venture Capital is defined as "an equity stake in an unquoted company which is either established or in a start-up situation, and requiring new or additional equity capital to expand or restructure."(P.165, "Introduction to Corporate Finance") Investment fund is a broad term which includes those funds investing in shares, foreign exchange and other financial instruments. In this paper, only those "direct investment" funds are discussed. They have the similarity with venture capital that they invest in unlisted companies aiming at high return at the cost of higher risk. Traditionally, venture capital funds invest in technology-related business. Since the first China direct investment fund was founded by ChinaVest in 1986, the number of China funds grew rapidly. Many international fund management companies entered the market with the assistance of Hong Kong companies or China enterprises. At the end of 1993, venture capital/direct investment funds raised for the China market reached US$1,422 m (up 16.5% from 1993's) and there were already 53 fund management companies opearting direct investment business in China. The following table shows the growth of venture capital funds targeted for the China market:

Year	No. of Funds Founded	Value (in US$ mil)
1994E	13	1,344.77
1993	11	646.85
1992	12	598.50
1991	2	84.90
1985-1990	4	91.81
Total	42	2,766.83

(Note that the above figures may not complete because some funds were raised overseas and sometimes not recorded.)

(Source: Asia Venture Capital Journal Oct 1994)

Usually venture capitals/direct investment funds do not take more than 25% share and do not involve in daily management of the investee companies. Though they normally have minimum investment amount in each project, they also have a ceiling of 15-20% of their asset values in each project and related group. Beside ordinary equity shares, venture capital/direct investment funds may also invest in the forms of preference shares, debts, convertible debts or in mixed form depending on the risk and return evaluation. Sometimes some forms of guarantees or buy-back commitments from founders/initiators may be required too.

The following is a list of some typical China direct investment funds:

Name Of Funds	**Fund Manager**	**Fund Size**	**Year Founded**
JF China Investment Co Ltd	JF China Management Co Ltd (Jardine Fleming's subsidiary)	US$12.9 m	1987
China Assets (Holdings) Ltd (Listed in SEHK by placing in Apr 92)	China Assets Management Ltd	US$72 m	1991
SHK Pearl River Delta Investment Co Ltd	Sun Hung Kai International Ltd (also managing two other funds with involvement in China)	US$12.9 m	1991
BOC China Fund *	China Development Management Ltd (a subsidiary of Bank of China)	US$105 m	1992
China Investment & Development Fund	Kleinwort Benson China Management Ltd	US$60 m	1992
China Investment Co Ltd	Crosby Assets Management Ltd	US$37.5 m	1992
China Merchant Direct Investment Fund ** (Listed in SEHK in Jul 93)	China Merchant China Investment Management Ltd	US$100 m	1993
Shanghai International Shanghai Growth Investment Ltd	Shanghai International Assets Management (HK) Co Ltd	US$ 96.35 m	1993
Wardley China Investment Trust	HSBC Private Equity Management (managing 2 other funds with involvement in China)	US$22 m	1994
ING Beijing Investment Co Ltd (Listed in SEHK)	ING Luxford Management (HK) Ltd	US$70 m	1994

(copy of the front page of the placing document is attached in Appendix 3)*

*(** copy of the front page of the prospectus is attached in Appendix 4)*

(Source: AVCJ Aug & Oct 1994)

The above table shows only those funds designated for the China market. There are some others which cover the whole Asia, including China of course, e.g.

Asian Infrastructure Fund managed by the Peregrine Group (which is thought to be the largest infrastructure fund in the world).

Currently, the sources of venture capital/direct investment funds are diverse. From a recent survey (p. 14, Oct 94 AVCJ), 27.2% came from HK/China, 41.8% came from other Asian countries and 31% from non-Asian countries. But it was expected that the US and European institutional investors, i.e. insurance companies, pension funds, private foundations, etc, will soon become the major sources (*P. 3 AVCJ Nov 94*).

In assessing projects, the fund managers perform standard analysis on industry, company, management, return and riskiness. However, the most difficult parts, as told by one fund manager, are the due diligence work and the exit planning. Many projects were on hold because of the delay or failure of the due diligence result. On the other hand, feasible exit alternatives are still unclear for China projects. There are no previous examples. Public Offerings in China is tightly regulated and limited by quotas. It is questionable whether the China counterparts can buy-back the shares. Even the repatriation of capital is still a grey area. The only available exits are selling to other investors or listing in overseas markets.

Companies with China projects on hand can on the one hand invite the fund managers for investment or on the other hand, can pool their own funds, if they have the required elements.

Raising Own Funds

Many new funds in recent years are actually bearing strong links with the project initiators. Some of the initiators identified projects by signing Letters of Intent, or Contracts through shell companies, before they raise the funds. The followings are some direct investment funds, of which the managers / advisors are themselves the project owners or have strong relationship with the project initiators:

FUNDS	RELATIONSHIP WITH PROJECT INITIATORS
BOC China Fund	18 out of 21 potential projects listed in the placing documents are originally projects of the parent of the investment manager, the China Development Investment (HK) Ltd
ING Beijing Investment Company	The fund's advisor, Beijing Investment & Advisory Service Centre is a subsidiary of Beijing municipal government
China Light Industry Fund	The manager, Pacific Capital Fund Management Ltd, is 45% owned by the China National Council of Light Industry
Guangdong Development Fund (Listed on London in Feb 94)	Initiated by Guangdong Investment Ltd which is the window company of Guangdong government in Hong Kong
China Merchant Direct Investment Fund	The manager, China Merchant Investment Management Ltd, is 55% owned by the China Merchant Group, which is the window company of the China's Ministry of Communication in Hong Kong.
China Torch Hi-Tech Industry Investment Fund	The manager is a JV between the State Science Commission of China and a foreign financial institution.
China North Industries Investment Ltd (Listed on Singapore in Oct 94)	Most of the projects are "contributed" by one of the fund initiators, the China North Industries Group which is a PRC ministry-level industrial conglomerate
CMEC China Holdings Fund (Listed on Ireland)	Sourcing of projects are mainly performed by the CMEC's (China Machinery Import & Export Corporation) offices in China

(Source: Asian Venture Capital Journal, various issues in 1993 & 1994)

To launch an investment fund successfully, the project initiator should part with an international investment house or investment management company which provide professional advice and international network. This is also the foundations of many successful examples in the past.

Since all direct investment funds are aimed at medium to long term growth, nearly all of them are closed-end funds. But to attract investors, many of them sought listing in Hong Kong or other exchanges. In Hong Kong, direct funds can seek the listing as an investment company under Chapter 21 of the Listing Rules. The regulation is looser than other companies. Companies need not to have operation history. In 1993, four investment companies were listed, and HK$2,525.90 were raised in SEHK.

Approaching Existing Investment Funds

Due to the importance of Hong Kong in China direct investment, most of the China investment funds set up their head offices here. Companies having projects on hand and require capital can approach these fund managers directly or through financial advisors. As told by an investment analyst in one of the funds, nearly all of their projects came from introduction or referral. The guide book published by the Asian Venture Capital Journal contains all venture capital/direct investment companies in Asia with their contact methods, key personnels and preferred industries.

Recently, due to the monetary control in China, many analyst said that they already piled up of investment proposals in their offices. However, they commented that many of the proposals are very rough and not up to standard. Though the project's potential may be very high, the proposal just cannot attract their attention. On the other hand, some proposals are too good to be true. The projections are usually unrealistic. It reflects that a business plan/project proposal is very important.

Example Cases

One of the typical examples of successful tapping of investment funds is the cooperation between Siu Fung Ceramic Holdings Ltd (Siu Fung), an industrial company listed in SEHK, and a group of institutional investors (including Citicorp Capital Asia Ltd, HSBC Private Equity Management Ltd, Shaw Asset Management Ltd, Sun Hung Kai China Development Fund Ltd and Prudential Asset Management Asia Ltd) in Oct 94. In the transaction, a new company (called "New Concept Co") has been set up. Siu Fung then injected its interest in 35 PRC joint venture factories the consideration of US$118.77 mn. After the transaction, Siu Fung still control the projects, through holding 65.1 shares in the "New Concept Co". On the other hand, the institutional investors are protected with a right to convert their investment into Siu Fung's shares if "New Concept Co" is unable to be listed within 3 years. *(Announcement of Siu Fung Ceramics Holdings Ltd, 29 Oct 1994)*

Another example is the cooperation between Wai Kee Holdings Ltd (a construction company listed in SEHK) and the U.S.-based AIG Asia Infrastructure Fund L.P. In the transaction, a new company was formed for the purpose of investing and operating toll roads and port facilities in China. Wai Kee has transferred 5 projects into the new company at cost (about HK$495,549,000) plus a premium of HK$49,000,000. After investing HK$340 mn, AIG will own 40% minority interest in the new company.

Private Placement

It is the issuance of shares of to designated group of people, i.e. not the public. In contrast to selling shares to the public, private placement can save a lot of documentations, particularly the Prospectus, as required by the Company Ordinance Section 38. For private companies, it is probably the major source of external equity. A private placement can be structured to involve tens of independent investors or just a club deal between several well-known relatives or friends.

Normally, it is hard to bridge the potential investors and the company which is in need of capital. Further it may be very difficult for a private company to prepared a detail proposal/business plan to convince the potential investors. Therefore the role of a financial advisor is very crucial. In recent years, due to the increasing needs of finance for China projects, many small scale financial consultancy firms were setup to target for these small to medium private companies.

IV. DEBT FINANCING

Issuing Debt Securities

Basically, all debt securities are forms of promissory notes issued to the public in fixed denomination. The investors can transfer the securities (for negotiable securities) in the secondary market. Prices reflect the prevailing risk-adjusted interest rates. They can be listed or unlisted, straight or convertible, interest-bearing or non-interest bearing, floating rate or fixed rate, long-term or short-term (or medium-term), fixed term or perpetual, secured (by guarantee or assets) or unsecured, etc.

By issuing debt securities to finance the capital requirement, the company can have the following advantages:

1. Obtain financial leverage that can multiply the earning per share
2. No dilution of ownership
3. Lower cost, because of lower risk (compared with equity owners)
4. Lower flotation cost

The Hong Kong dollar debt market consists of mainly 7 products:

- Exchange Fund Notes (> 1 year)
- Exchange Fund Bills (< 1 year)
- Certificate of Deposit
- Negotiable Certificate of Deposit
- Corporate Bonds (> 5 years and usually fixed rate)
- Corporate Notes (1-5 years)
- Commercial Papers (<1 year)

The first two are issued by the Hong Kong's quasi-central bank while the next two are usually issued by financial institutions. The last three are corporate instruments. In 1993, within the 47 debt securities newly listed in SEHK, the breakdown is:

		No.
Straight Bonds		34
Floating Rate Bonds		10
Convertible Bonds		2
Asset-backed Debt Securities		1
	Total	47

At the end of 1993, the outstanding amount of each instrument is shown below:

		(in HK$ million)
Negotiable Certificate of Deposit		55.0
Commercial Papers		32.5
Exchange Fund Bills		26.3
Exchange Fund Notes		5.4
Corporate Bonds (listed in SEHK)		1,450.0
	Total:	1,569.2

Besides equity shares and equity warrants, debt securities is another major type of securities floated in the SEHK. Like equities, the listing of debts is primarily to provide a secondary market for the holders and thus increase its attractiveness at the time of issue. The methods of listing debt securities in SEHK are similar to equity securities. They include: Offer for Subscription, Offer for Sales, Placing, etc. The SEHK has another set of requirements for debt listing. For example:

- the company must be incorporated
- the company must not be a private company
- the company must be suitable for listing

- the shareholders' fund must be greater than HK$100 mn
- the value of listed debt securities must be greater than HK$50 mn
- the debt securities must have paying agents in Hong Kong

(Chapter 23, Listing Rules)

Due to the encouragement of SEHK, the number of newly listed debt securities in Hong Kong jumped dramatically from two in 1992 to forty-four in 1993 (*Factbook 1993*). Further, in 1994 (up to 20 Dec) it even went up to 70 (*22 Dec 94, HK Economic Times*).

However up to now, still most of the corporate debts are not listed in SEHK. They are being traded through the Reuters terminals and telephone lines between financial institutions and brokers (called the OTC market). Recently, the HKMA (Hong Kong Monetary Authority) introduced a Central Moneymarket Unit (CMU) which handled the settlement transactions of debt instruments. In 1994, the average daily turnover reached HK$195 mn.

From a recent survey, the issuance of corporate debt instruments was doubled in 1994, amounts to HK$51 billion, compared with HK$24.8 billion in 1993. *(ATV, Financial Review of 1993, 1 Jan 95*). But in 1993, only HK$4.66 billion were raised through SEHK. It shows that only 18.5% of the total debt securities are actually listed in SEHK. In addition, there is a trend since 1994 that floating rate issues dominate (almost accounted for 75% of total issues in 1994), due to the perception of the rise in interest rates (P.10, Banking World Hong Kong, Feb 1995). The top arrangers in 1994 was HSBC Markets, with Schroders Asia being the second and ABN-AMRO being the third.

There was a major development in Hong Kong's debt market. Since the first successful trial by Wharf's $2.3 bn FRN (Floating Rate Note), corporate debt instruments can be qualified for the liquidity adjustment facility of the HKMA. This qualification make the securities more desirable because the holders (if it is a bank) can engage in repurchase agreement with the HKMA. The HKMA's criteria includes launching and clearing through its Central Moneymarket Unit, appointing market makers and with suitable credit ratings. Bankers said that this break-through will stimulate more corporations to tap the local deposit base through floating rate issues, instead of syndicated loans (previously the favoured funding source for Hong Kong corporations (P.10, Banking World Hong Kong, Feb 1995).

Convertible Bonds

Convertible bonds have the characteristic that they can be converted into fixed number of common stocks at fixed price. From the investors' point of view, it provides the profit potential from rises in stock price while at the same time protect the down side risk by fixed interest income and principal repayment.

From the issuers' point of view, it can raise capital at a lower cost than bank lending or a straight bond (non-convertible bond) and at the same time, there is normally no need to pledge any assets. In addition, it can help to issue new common stocks (when being converted) at a price above the current level (at a premium).

But one of the major disadvantages of convertible bonds is the long and uncertain conversion period (and even may not be converted at all). To increase the probability of being converted, the issuers may make the bonds callable.

In 1993, due to the rocket prices in the stock market, there was a peak of issuing convertible bonds in Hong Kong. Out of the 26 listed companies which issued bonds, 25 of them issued convertible ones. But only two of them were listed in SEHK, while most of the rest were listed in Luxemburg (therefore they are also called "Euro-convertibles"). Major global lead managers and advisors included: Morgan Stanley, Jardine Fleming, First Boston, Nomura and Merrill Lynch *(Securities Journal P.7 Dec 93*). Hong Kong companies was the major issuers of convertible securities in Asia in 1993, with US$4,101 mn issued (compared with US$6,670 mn total in the region). The table below shows some examples of Euro-convertible bonds issued by Hong Kong companies with great involvements in China investment:

Companies	Date	Amount (in US$ mil)	Period (years)	Coupon Rate
Guangdong Investment Ltd	Sep 93	102	5	4.5%
Guangzhou Investment Co Ltd	Sep 93	105	5	4.5%
China Travel Intl Inv HK Ltd	Nov 93	125	5	4.25%
Henderson Land Dev Co Ltd *	Oct 93	460	3	4%
New World Development	Nov 93	300	7	4.4%
China Overseas	Dec 93	150	7	5.3%
Kumagai Gumi (HK) Ltd	Dec 93	115	6	4.9%
Pacific Concord	Dec 93	143.75	4	4.8%

*: Bonds are convertible to Henderson China Holdings Ltd which is expected to be listed before Oct 1996 (copy of the front page of the Offering Circular is attached in Appendix 5)

(Source: P.8 Securities Journal Dec93 & HK Stock Market Quarterly Review 4th quarter1993)

Preference shares is very similar to convertible bonds in that they are both "fixed income securities" except that it is an equity instead of debt obligation.

Dragon Bonds

Dragon bond is the Asian equivalent of Eurobonds. It is defined by the Asian Development Bank (ADB) as "an issue which is priced, launched and syndicated in Asia-Pacific outside Japan (and) which should be listed in at least two of the 3 centres in Asia (Hong Kong, Singapore and Taiwan), and which trades within the region" (Securities Journal, Feb 94). Since the first issue by ADB in Nov 1991, up to Feb 1994, there were 11 issues, totalled US$1.85 billion and Yen 30 billion were raised. (see table below):

Issuer	Amount	Coupon	Life	Rating
Asian Development Bank	US$300m	7.5%	7 yrs	Aaa
Asian Development Bank	US$300m	6.125%	5 yrs	Aaa
Asian Development Bank	JPY30b	4%	5 yrs	Aaa
General Electric Capital Corp	US$300m	5.5%	5 yrs	Aaa
European Investment Bank	US$500m	5.25%	5 yrs	Aaa
Nordic Investment Bank	US$200m	5.625%	5 yrs	Aaa
AB Svensk Exportkredit (1)	US$200m	4.75%	3 yrs	Aaa

Export Development Corp (2)	CAD250m	6.625%	5 yrs	Aaa
Abbey National	US$250m	4.875%	3 yrs	Aa2
Oesterreische Kontrolbank (3)	US$200m	4.875%	5 yrs	Aaa
Rabobank	US$200m	4.375%	3 yrs	Aaa

(1), (2) & (3) are the Export Credit Agencies (ECA) for Sweden, Canada and Austria, respectively. The role of ECA in China project financing is discussed below.

(Source: Securities Journal, Feb 1994)

Though the Dragon Bonds were mainly issued by banks or financial institutions in the past, there are reasons to believe that large corporations may develop this source of finance in the future.

Bond issuing actually are theoretically not limited to listed companies. It can be used by other large companies too. For example, the Mass Transit Railway, Bank of Communication, Hainan International Trust & Investment Corp and China Investment Bank all have issued bonds and listed in SEHK in 1993. (Factbook 1993)

Project Bonds

Project Bond is "a financing vehicle that merges the idea of project finance and capital market instruments" (SCMP, 18 Nov 1994). It is a very new concept just originated in the U.S. in 1992. The underlying concept is to pass all the project risk to the bond holders who in return received a higher interest. The issuer will be the project company, instead of the sponsor, who will get a full non-recourse financing. It will be a form of off-balance sheet financing for the sponsor. No successful examples were found in China yet.

Credit Ratings

An independent and internationally recognized credit rating can improved the acceptance, and thus the cost, of the issues. The two major rating agencies are

Moody's Investors Service (Moody's) and Standard & Poor's Corporation (S&P). Both companies assess the risk on similar criteria. They are:

- sources of revenue
- measurement of earning and cashflow
- management
- regulation
- financing
- others

The objective of rating is to give a measure of the likelihood that a company will be able to meet its debt obligations. Moody's rank its ratings in the order of Aaa, Aa, A, Baa, Ba, B, Caa, Ca and C from lowest risk to highest risk, while S&P used AAA, AA, A, BBB, BB, A, CCC, C and D. The rating given by S&P for China as a country, is BBB, which is the ceiling for all governmental debts or debts primarily secured by the guarantees of governmental organizations.

Recently, perceiving the benefits of issuing debt securities, many local companies seek rating from Moody's and Standard & Poor's proactively. This has induced the two companies to set up their offices in Hong Kong recently. In 1994. S&P assigned 7 new ratings for Hong Kong companies and they expect to see more in 1995 due to the increasing number of cross-border issues. (*SCMP 11 Jan 95*)

It is believed in the industry that debt instruments will grow into a major financing tool in Asia in the next few years from the present size of US$500 bn to US$1,000 bn in total within the next 5 years. (*HK Economic Journal, 11 Jan 95*)

Example Case

A typical example for debt issuing of China related company is the US$200m FRN by CITIC Pacific Ltd in Nov 1994. It is a 3-year note issued by CITIC Pacific Finance Ltd (newly incorporated in Cayman Island) and guaranteed by CITIC Pacific

Ltd (incorporated and listed in Hong Kong with majority share owned by CITIC Beijing). Interest will be calculated on LIBOR (6-month) plus 0.5%. The note was listed on SEHK and London Stock Exchange. Arrangers were HSBC Markets and Paribus Capital Markets. The proceed will be lent to CITIC Pacific Ltd (the parent company) for "general corporate purposes". However, it was understood that part of the money will be used in China since CITIC Pacific Ltd owns a lot of power, infrastructure and industrial projects inside China *(Offering Circular of CITIC Pacific Ltd, 3 Nov 94, copy of the covering page is attached in Appendix 6)*.

Project Finance

Project finance is specially designed financing methods which relies on the project cashflow as primary source of repayment and the project asset as primary collateral. ("Syndicated Loans", CCIC) Since the repayment relies on project return, the feasibility of the project is the key consideration. However, nowadays, pure non-recourse (i.e. the lenders have no claims on the initiator/sponsor regarding the repayment) project finance is rare. The sponsors/initiators are usually required to provide some sort of guarantees or commitments, such as the completion of the construction. The tenor of the financing normally matched with the payback period of the project and thus must be medium to long term.

Syndicated Loan is the major type of project finance, which involved several banks, due to the large sum of money involved, to form a syndicate and provide finance on same terms and conditions. It originated in New York in 1967.

In 1994, 122 syndicated loans, involving total amount of US$10,734 mn, were signed in Hong Kong (not necessarily used in HK). As shown in the table below, figures are just similar to 1993's, while they should have been more due to the crash of the stock market in 1994. The reason is that more and more corporations began to use securities style of fund raising instead of traditional syndicated loans.

	Syndicated Loans Signed (amount in US$ mn)			
	1993		1994	
	Deals	Amount	Deals	Amount
China	118	6,722.69	173	7,945.76
Hong Kong	103	10,448.34	122	10,735.91

(Source: Feb 94 & Feb 95 Asiamoney)

Typically, the project being financed is a sale and purchase transaction or a construction project, of which huge sum of money is required. The sponsor is usually either the seller or the contractor. Project financing is more suitable for some industries where an underlying commodity is extracted to be on-sold to generate cash. In addition, infrastructure which are normally supported by the host country, are also suitable candidates.

In a project finance deal, banks can play three roles:

1. provide advisory service in drafting feasibility study;
2. arrange a financial structure and provide all or part of the funding;
3. provide non-fund based service (e.g. remittance, foreign exchange lines).

The time required to structured a syndicated loan varies. But a typical one required 60 days from mandate to signing loan documents.*(P.82, "Syndicated Loans")*. An "arranger" may be itself the fund provider or not. Active merchant banks in Hong Kong specialized in arranging China project finance includes: China Development Finance Company (subsidiary of Bank of China), CCIC Finance (joint venture between Bank of China, First National Chicago Bank and the Industrial Bank of Japan), Wardley Capital (now called HSBC Investment Bank), Schroder Asia, Citicorp International, CEF Capital, Standard Chartered Asia and the Societe Generale Asia.

Normally, the following securities may be required by the lenders:

- the provision of a throughput agreements (e.g. the agreement to purchase a minimum level of output from the project company)
- the assignment of the "take or pay" contract
- the charge over assets and shareholders' stake in the project
- completion guarantee from contractor(s)

Due to the problem of forex control and the enforceability of securities in China, project finance in China usually requires guarantees from approved institutions by Peoples' Bank of China (PBOC) and the State Administration of Exchange Control (SAEC). All of these approved institutions are designated banks and ITIC (International Trade & Investment Corporation headed by CITIC). After unrestricted issuance of guarantees by banks in the 1980's, the State Council and PBOC issued an internal directive in Nov 1993 to prohibited banks from giving foreign exchange guarantees exceeding the Chinese partner's equity interest in a joint venture. Thenafter, foreign investors must provide their own collateral or guarantees on the projects *(Asiamoney, Nov 94)*. Many investors are unwilling to do so and thus there is a trend that foreign lenders lend money to the approved "borrowing windows" (ten banks designated by PBOC) which indirectly lend to the enterprises or projects. *(P.76, "Syndication Loans")*

Project finance is normally structured in a way to match the cashflow of the project. Therefore it allows phased drawdown and grace period in repayment. Furthermore, elements like linkage with export credit agency support (discussed in later section), government aids, soft loans, and standby facilities may also be packaged.

Example Cases

The first substantial project financing in China since the Open Policy was Shajiao Coal Fired Power Plant "B". After over one year negotiation and arrangement, the financial documents were signed in April 1986. It is a limited recourse loan of amount HK$3.3 billion. The project was undertaken on a turnkey basis by a consortium led by Hopewell. Part of the funding came from Japanese export credit authorities. The cashflow was supported by a set of supply and off-take agreements in which the Chinese partner undertake to supply coal at a fixed price and purchase a minimum amount of electricity generated at agreed prices. Further, the agreements also stipulated that part of the price must be paid in foreign currency. These obligations of the Chinese party were guaranteed by Guangdong ITIC. The Governor of Guangdong also provided a comfort letter on the project. (Chapter 2, "Loans to China", Clifford Chance, IFR, 1990).

Another recent example was the US$245mn syndicated loan borrowed by the China Resources Group in Sep 94. It is a 5-year loan borrowed from a syndicate of 29 banks, led by Bankers Trust. Most of the proceeds will be used in two power projects (in Hebei and Jiangsu) and a superhighway project (linking Shanghai & Nanjing) on the Mainland. Interest rate will be determined by 6-month LIBOR plus 65 basis points (*Ming Pao, 3 Sep 94*).

Borrowing from Local Banks

Due to the problems of enforcing securities in China, pure project finance (non-recourse) is unusual in China, and is only limited to infrastructural projects supported by the central government and PBOC. For industrial, real estate development and other venture projects, the project initiators must provide full recourse and full securities over the borrowings channeled to China uses. The most common and acceptable securities required by banks are properties in Hong Kong and the guarantees from approved institutions in China.

Borrowing from PRC Banks

Most of the investment projects in China are operated through equity joint ventures or contractual joint ventures. As a locally registered company, the joint venture is allowed to borrow from domestic banks in China. However, the banking system in China, though in the process of reform, is still regulated under credit quota control and directive lendings. Relationship is the prime consideration in granting loans.

According to the PBOC's "Guideline on Lending to Foreign Invested Enterprises" dated 7 April 1987, the loans to joint ventures can be made in local or foreign currency and can take the forms of fixed assets financing or working capital financing. But the period is limited to seven years or less for the former, while it is bounded by 12 months for the later. It was told that most of the joint ventures in China before the monetary control in 1993 were able to obtain financing from domestic banks. Though there are limits on the minimum equity to total investment ratio controlled by the MOFTEC (see Appendix 7). However, many investors were able to invest with small amount of capital outlay. Common examples were found in many real estate development projects which were delayed or defaulted just after the austerity program.

V. OTHER METHODS

World Bank and its affiliates

The World Bank is a specialized agency of the United Nation found in 1944 together with the International Monetary Fund (IMF). It has two major arms, the International Bank of Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD focus on economic feasibility of projects, while the IDA put more emphasis on concession to poorer countries.

International Finance Corporation (IFC) is an affiliate of the World Bank and is actively involved in financing the enterprises in China. Established in 1956, IFC's objective is to promote the economic development of less developed countries through investing the private enterprises. It is the largest source of multilateral fundings to private sectors of developing countries. As at 30 Jun 1992, IFC has committed over US$15,300 mn in more than 1,000 projects in over 100 countries. In China, its investment was still small, compared with in other Asian countries. As of 30 June 93, IFC has committed only US$96 mn in 7 projects in China. They includes Shenzhen Bicycles Co, Guangzhou Peugeot Automobile Corp, and Shenzhen Taiyang PCCP Co Ltd. Recently, IFC is actively expanding its involvement in China projects. For example, it has participated in the Asian Infrastructure Fund managed by Peregrine Group and the China Walden Investment Ltd (a direct investment fund) managed by the Walden Group.

Besides direct investment, IFC provides also advisory services and technical assistance to business and governments. In particular, IFC can help China companies to identify foreign partners and provide financial proposal.

To be eligible for IFC financing, the project must be viable and profitable. Companies seeking to establish a new venture or expand an existing enterprise, even a state-owned enterprise, can apply for IFC financing. Normally, IFC will give priority to projects of investment over US$15 mn. Applicants can submit their proposal to IFC's Beijing office, which was established in Oct 1992. A detail feasibility study is required for each project. Its offers both equity and long-term loans (up to 14 years), but limits the total financing in each project to 25% share of the total cost or US$100 mn, whichever is lower. Generally, IFC will not involved in daily operation of the project. No government guarantee is required, but project assets need to be pledged as securities.

Export Credit

Many countries provide special incentive schemes to exporters. The most common method is financial subsidy. The first export credit agency (ECA) was established in 1919 in UK as the Export Credit Guarantee Department (ECGD). The role of export related borrowings in relation to total cross-border financing has been growing, particularly in exporting to developing countries. The ECAs in major OECD countries are listed below:

COUNTRY	FUNDING AGENT	INSURANCE AGENT
Australia	EFIC	EFIC
Austria	OKB	OKB
Belgium	Creditexport Copromex	Ducroire
Canada	EDC	EDC
Denmark	DEFC	EKR
Finland	FEC	VTL
France	BFCE	Coface
Germany	AKA/KFW	Hermes
Greece	ECIF	ECIF
Ireland	ICI	ICI
Italy	Mediocredito	Sace
Japan	J-Exim	Miti
Portugal	COSEC	COSEC
Netherland	-	NCM
New Zealand	-	EXGO
Norway	Eksportfinans	GIEK
Spain	ICO	CESCE
Sweden	ABSEK	EKN
Switzerland	-	ERG
UK	ECGD	ECGD
USA	EXIM PEFCO	EXIM FCIA OPIC CCC

(Source: Isabelle J. Kayaloff, 1988)

Export credit can take the following four forms:

- Supplier's Credit

  (see Appendix 8 for illustration)

- Buyer's Credit

  (see Appendix 9 for illustration)

- Lines of Credit (LOC)
  - an on-going or revolving buyer's credit for continuous purchase
  - typically arranged between the importer and a bank located in the exporting country

- Protocols
  - an uncommitted line of credit in which the rates and terms are not specified

There are mainly 4 types of funding arrangement in ECA supported finance:

- Direct Lending
  - agency lends directly to the exporter/importer

- Deposit/re-lending
  - agency lends (by depositing) to the bank who in turn re-lend to the exporter/ importer

- Discounting
  - exporter sells the promissory notes issued by the importer to the bank who then discounts them with the agency

- Interest Make-up
  - agency agrees to pay the bank the difference between normal interest and the subsidized interest charged on the borrower (either the importer or the exporter)

In recent years, export financing has evolved to increasingly rely on non-conventional securities arrangement and link to project financing. However, since ECAs, in general, are still reluctant to accept project-related risk, they usually require a third party guarantee as security.

For the projects which requires significant importation from those countries with export credit supported finance, it is advisable to negotiate financing directly with the suppliers or the bankers by the support of an ECA.

Example Case

A typical example is found in Daya Bay Nuclear plant Phase II, which will be financed by a syndicated loan led by BNP supported by ECGD of UK and COFACE of France. Total amount involved is about HK$14.5 bn. *(HK Economic Times, 17 Jan 95)*

Suppliers' Financing

Actually, export credit is only a special type of suppliers'finance. There are other forms of financing that can be obtained from suppliers. For instance, stage payment is the most popular one. It can be negotiated as part of the terms in the purchase. In large projects, many multinational corporations are usually willing to offer generous terms of payment in order to path the way for future business in a new market. China is a potential market that many big companies are looking at. As a project initiator, one can utilize this advantage to negotiate preferential payment terms which match their income from their projects.

Customer Financing

By changing the payment pattern of customers, company can obtain cashflows for development. The most common way is to request prepayment or early payments from customers. Such practice is very popular in property development projects. Purchasers are usually request to pay in advance or stage payments before the properties are completed. In most countries, there are strict regulations to protect the interest of these prepaid properties buyers. But in China, such regulations are primitive and loose a few years ago. It gave an opportunity for the opportunists to start property projects with minimum capital (which is used mainly for advertisement) and then finance the whole project from pre-sale of flats. However, recent regulations have stringent the pre-sale of properties in China.

Franchising

By franchising, one (franchisor) grants the right (license) to use a particular trade name to other operators (franchisees). It can be used in many occasions. For example, a retail chain store owner can expand his network in China by granting franchise to many local operators to use the same name and sell the same line of products in operation. Effectively, he is expanding the network making use of the capital of all franchisees. On the other hand, we can view this as the pooling of capital from the franchisees (who invest in the store setup) and the franchisor (who invest in publicizing the trade name and sometimes the inventory too) in expanding the business. Many foreign retail outlets in China are actually using franchising operation, such as Giordano, Playboy and Goldlion, not just to reduce the cost, but also to avoid the regulations.

Leasing

Leasing is "a commercial arrangement whereby an equipment owner (the lessor) conveys the right to use the equipment in return for the payment by the equipment user (the lessee) of a specified rental over a pre-agreed period of time" (P.127, "Handbook of UK Corporate Finance"). It provides the following advantages to the lessee:

- 100% financing
- conserve lines of credit
- matching of income and expenditure
- fixed cost
- convenience

The principle of leasing very similar to hire purchase. It arisen from the tax benefit of equipment purchase.

Leasing is particularly useful for projects involving the acquisition of significant fixed assets. The size of a lease financing can range from a small truck to an whole aircraft. The risk to the lessor is quite high for equipment being used in China because "the Chinese law contains no specific provision for leasing" (P.10, Banking World Hong Kong, Aug 1994). The repossession of the equipment, when payment is defaulted, is very difficult. Therefore, most of the leasing companies grant the finance totally depending on the lessee's financial strength and indemnity, instead of the value of the underlying asset. The major leasing company involving in China business is Trilease International, which is a joint venture between Bank of China, Societe Generale and the Bank of East Asia.

Counter-Trade

When there is problem of payment in hard currencies, like China, counter-trade will be a good alternative to finance the importation of technology or hardware. In simple words, counter-trade is the way of importing "by forcing foreign exporters to accept goods in lieu of payment" (P. 351, "Introduction to Corporate Finance"). It can take five different forms:

- Barter
  - goods for goods exchange, but is rare now

- Counter-purchase
  - the exporter commit another contract with the importer to buy certain amount of goods from the importer's country for a given percentage of the original contract
  - a triangular deal is usually involved in the way that a third party appears as the ultimate purchaser of the goods exported from the importing country

- Buy-back
  - the exporter will be paid by the products produced by the exporting machinery/equipment

- Co-operation
  - the exporter is required to transfer the manufacturing process to a third party in the importing country

- Off-set
  - complicated deals which requires the exporter to agree on a package which may include the use of local content/services, making direct investment and/or technology transfer

Using counter-trade as a financing tool to import has been increasing in the past. It is estimated that over 10% of the world trade is now financed in this way (P.354, "Introduction to Corporate Finance"). Many developing countries, including China, has set preferential terms and targets to promote counter-trades. However, a successful counter-trade requires complicated and lengthy negotiations.

Staff Financing

Due to the suppressed low interest rates in China, depositors are unwillingly to put their savings into banks. Stocks has been the popular investment alternative. Many enterprises in China has found that borrowing from state-owned banks is too expensive and difficult, particularly in contraction period. Therefore, they tried to borrow from their own staff. Such borrowing is illegal and thus not widely told in China. However, in my career history in China trade, I have seen a real case in which the Sino-foreign joint venture, due to shortage of working capital, borrowed about RMB10mn from its own staff. And I was told that such phenomenon is not uncommon at all, and the financing instruments also include debt securities. Many unlisted joint stock companies (previously state-owned enterprises, but were allowed to issue shares) actually raised capital internally among staff. Many staff even trade the shares in the black market.

Under the condition that there is shortage of investment alternatives, this "internal financing" is surely an alternative for corporations, except that it is one of the illegal financing methods that have attracted the central government's attention.

VI. SUMMARY

Traditionally, raising capital by listing equity shares in the stock exchange is thought to be the major financing alternative. This view is still correct in the meaning that a listing status can facilitate other financing channels, by making the company publicly known and highly transparent. However, as discussed in this paper, there are a lot of other financing alternatives that are available to small to medium firms in financing their China projects. For example: private placement, venture capital, bank loans (from banks in Hong Kong or in China), export financing, franchising, customer financing and staff financing.

We can see that many techniques are actually copied from other countries. They may be already well-established there before being implanted into this side of the world. It also explained the importance of Hong Kong, as a major international financial centre, in financing the growth of China. This has provided opportunities for international merchant bankers to bring in relatively new financial engineering methods into this market. However, they should be cautious about the special legal and financial environment in China. Special attention should be made on the foreign exchange control, banking and monetary systems, ownership structure and company law in China. The success of a financing technique depends on whether it can meet both the local characteristics and the international investors' requirements.

This paper is very ambitious in the scope of coverage. I understand that there may some over-simplification and over-look. My objective is to give a broad view on all available financing methods, instead of going into details of particular topics. There are many areas that are worthwhile for further study. For example, the outlook of debt instruments in project finance and the role of direct investment funds in China projects.

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5. "A Transaction Guide to Global Offerings of Depository Receipts", obtained from the Bank of New York, Hong Kong Branch in Dec 1994
6. Private Placement Memorandum of "BOC China Fund Ltd", China Development Investment Management Ltd, dated 5 Nov 92.
7. Preliminary Offering Circular of "Henderson Capital International Ltd - Mandatorily Convertible Guaranteed Bonds", dated 12 Oct 1992.
8. Offering Circular of "CITIC Pacific Finance Ltd - US$200 million Guaranteed Floating Rate Notes", dated 3 Nov 1994.
9. Prospectus of various listed companies.

APPENDICES

Covering page of the prospectus of the "Siu Fung Ceramics Holdings Ltd" dated 3 October 1993

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, having attached thereto the documents specified in paragraph 16 of Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus, together with copies of the application forms, has also been filed with the Registrar of Companies in Bermuda. The Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus or the documents referred to above.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

SIU-FUNG CERAMICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

NEW ISSUE

of

334,500,000 shares of $0.10 each
at $1.68 per share
payable in full on application

Sponsor and Underwriter

Wardley Corporate Finance Limited

The procedure for application is set out at the end of this prospectus.

The attention of nominees who wish to submit separate applications on behalf of different beneficial owners is drawn to paragraph 1 of the section headed "Procedure for application", set out at the end of this prospectus, relating to multiple applications.

The application lists for the Shares now being offered will open at 11:45 a.m. on 15th October, 1993 and will close at 12:00 noon on the same day, subject as mentioned in the section headed "Procedure for application" set out at the end of this prospectus.

12th October, 1993

Appendix 2-1

Examples of Back-door listing in recent years:

"Shells" being acquired	Background of Purchaser	New Name	Proposed date
Lolliman Holdings Ltd	China Poly Group & CITIC	Poly Investment Holdings Ltd	Jul 93
Newfoundland Intl Co Ltd	China Everbright Group	China Everbright International Ltd	Apr 93
Conic Investment Co Ltd	China Aerospace Corp	China Aerospace Intl Holdings Ltd	Jun 93
Summa Promet Energy Ltd	Fujian Enterprises	Seaunion Holdings Ltd	Oct 93
Eastern Century Holdings Ltd	Shougang Corporation (Capital Steel Factory)	Eastern Century Holdings Ltd	Nov 93
Continental Mariner Inv Co Ltd	CITIC & China Poly Group	Continental Mariner Investment Co Ltd	Jan 93
Paragon Holdings Ltd	China National Petroleum Corporation	Paragon Holdings Ltd	Jun 93
HK Worsted Mills Ltd	Beijing ITIC	Beijing Dev (HK) Ltd	Aug 93
International Industries Ltd	China National Non-ferrous Metals I/E Corp	Silver Grant Intl Industries Ltd	Jun 93
Ong Holdings (HK) Ltd	Shanghai Intl Securities	Shanghai Intl (HK) Ltd	May 93
Public Intl Investment Ltd	Cheung Kong, China Venturetech & Shanghai Intl Securities	First Shanghai Investment Ltd	Feb 93
World Trade Centre Group Ltd	China National Cereal, Oil & Foodstuff I/E Corp	Top Glory Intl Holding Ltd	Oct 93
Winland Investment Ltd	China Resources & Cheung Kong	China Resources Enterprise, Ltd	Sep 92
Paladin Ltd	Jinchuan Non-ferrous Metals Corporation	Paladin Ltd	Dec 92

Examples of Back-door listing in recent years (continue):

"Shells" being acquired	Background of Purchaser	New Name	Proposed date
Seabase Intl Holdings Ltd	China National Cereal, Oil & Foodstuff I/E Corp	China Foods Holdings Ltd	1993
Santai Manufacturing Ltd	Shougang Corporation (Capital Steel Factory)	Shougang Concord Technology Holdings Ltd	Apr 93
Tung Wing Steel Holdings Ltd	Shougang Corporation (Capital Steel Factory) & Cheung Kong	Shougang Concord Intl Ent Co Ltd	1992
Kader Investment Co Ltd	Shougang Corporation (Capital Steel Factory) & Cheung Kong	Shougang Concord Grand (Group) Ltd	Jun 93
Laws Property Holdings Ltd	China Non-ferrous Metals I/E Corporation	Onfem Holdings Ltd	May 93

(Source: Factbook 1993 & HK Economic Times 10 Nov 93 & Wardley Card, Wardley Data Services Ltd)

Appendix 3

Covering page of the placing document of the "BOC China Fund" dated 5 Nov 1992

Private Placing Memorandum

BOC CHINA FUND LIMITED

(Incorporated with limited liability under the laws of Hong Kong)

Placing of 100,000,000 shares of US$0.10 each

(Subject to increase up to 150,000,000 Shares)

at a price of US$1.05 per Share

(payable in full on subscription)

Investment Manager

China Development Investment Management Limited

Arranger & Underwriter

China Development Finance Company (H.K.) Limited

Placing Managers

East Asia Warburg Ltd   Sun Hung Kai International Limited

5th November, 1992

THIS DOCUMENT IS CONFIDENTIAL. IT IS FOR THE EXCLUSIVE USE OF THE PERSON NAMED BELOW AND SHOULD BE RETURNED IF SUCH PERSON DECIDES NOT TO SUBSCRIBE FOR SHARES IN THE PLACING.

NAME:

COPY NUMBER:

Covering page of the prospectus of the "China Merchant China Fund" dated 15 July 1993

IMPORTANT

If you are in any doubt about the contents of this prospectus you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies" in appendix IV, has been registered by the Registrar of Companies in Hong Kong as required by section 38D of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility as to the contents of this prospectus or the other documents referred to above.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招 商 局 中 國 基 金 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Placing of up to 100,000,000 Shares of US\$0.10 each
at US\$1.05 per Share
payable in full on application
(together with Warrants in the proportion of
one Warrant for every five Shares subscribed)

Listing on

THE STOCK EXCHANGE OF HONG KONG LIMITED

Sponsor and Manager

STANDARD CHARTERED ASIA LIMITED

Investment Manager

China Merchants China Investment Management Limited

Placing Managers

Standard Chartered Asia Limited — **China Development Finance Co., (H.K.) Ltd.**

Yamaichi International (H.K.) Limited — **Morgan Stanley Asia Limited**

The Bank of East Asia, Limited

Investment in China carries a high degree of risk. Accordingly, the Company is only suitable for investment by sophisticated investors who are aware of the risks and who have the ability and willingness to accept the anticipated lack of liquidity in the underlying investments of the Company and the risk of substantial loss of capital resulting from investment in China. The attention of potential investors is particularly drawn to the section headed "Risk Factors" on pages 3 to 5.

15th July, 1993

Appendix 5

Covering page of the Preliminary Offering Circular of "Henderson Capital International Ltd - Mandatorily Convertible Guaranteed Bonds", dated 12 Oct 1992.

PRELIMINARY OFFERING CIRCULAR DATED OCTOBER 12, 1993

The information contained in this document is subject to completion and amendment in the final offering circular.

US$400,000,000

Henderson Capital International Limited
Mandatorily Convertible Guaranteed Bonds

guaranteed by

Henderson Land Development Company Limited

and convertible into shares of

Henderson China Holdings Limited

The Mandatorily Convertible Guaranteed Bonds (the "Bonds") in the aggregate principal amount of US$400,000,000 will be issued by Henderson Capital International Limited, incorporated with limited liability in the Cayman Islands (the "Issuer"), will be guaranteed by Henderson Land Development Company Limited, incorporated with limited liability in Hong Kong ("Henderson Land"), and will be convertible into ordinary shares (the "Shares") of Henderson China Holdings Limited, incorporated with limited liability in Bermuda ("Henderson China"), following completion of an initial public offering of Shares (the "IPO"). The Bonds will bear interest payable semi-annually in arrears on June 1, 1994 and each June 1 and December 1 thereafter at the step-up rates specified herein.

Interest will be payable on the Bonds at 4% per annum to but excluding December 1, 1994, 4½% per annum from such date to but excluding December 1, 1995, and 5% per annum on and after such date, provided that in the event of an IPO, interest on the Bonds will be payable at 5% per annum on and after the date of listing of such Shares (the "IPO Listing Date"). Upon completion of an IPO, each Bond will be convertible into Shares at the option of the holder thereof on and after the IPO Listing Date up to but excluding the first anniversary of the IPO Listing Date, on which date each outstanding Bond will be mandatorily converted into Shares. Each Bond will be convertible into the number of Shares determined by dividing the outstanding principal amount of such Bond (translated into Hong Kong dollars at the exchange rate prevailing at the time of the IPO) by the initial public offering price of the Shares in the IPO and multiplying such amount by 105%, if the IPO Listing Date occurs on or before October , 1994; 106%, if the IPO Listing Date occurs on or after such date but before October , 1995; and 107%, if the IPO Listing Date occurs thereafter. In effect, the Bondholder will receive upon conversion Shares at a discount to the initial public offering price of Shares in the IPO. Whether an IPO occurs is at the discretion of Henderson Land. If an IPO shall not have been completed on or prior to October , 1996, the Bonds will be redeemed on such date at 107% of their principal amount together with accrued interest thereon.

Application has been made to list the Bonds on the Luxembourg Stock Exchange.
The Bonds have been designated for trading in the National Association of Securities Dealers Inc.'s PORTAL System.

PRICE 100%

The Bonds, the guarantee of Henderson Land and the Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to U.S. persons (as defined in Regulation S under the Securities Act), except that the Bonds may be offered or sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act and to qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and in accordance with any other applicable law. For a further description of certain restrictions on the offering, sale and resale of the securities offered hereby and on the distribution of this document, see "Subscription and Sale."

Bonds sold in offshore transactions in reliance on Regulation S under the Securities Act will be represented by a single, permanent global Bond in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company ("DTC") in New York, New York, for the accounts of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedel S.A. ("Cedel"). Until and including the 40th day after the later of the closing date of the offering and the closing date with respect to the additional Bonds, if any, to cover over-allotments, as described below, beneficial interests in such global Bond may be held only through Euroclear or Cedel. Bonds sold in reliance on Rule 144A under the Securities Act will be represented by a single, permanent global Bond in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Bonds represented by the global Bonds will trade in DTC's Same Day Funds Settlement System and secondary market trading activity in such Bonds will therefore settle in immediately available funds. Except as described herein, beneficial interests in the global Bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Cedel.

The Managers are entitled at any time up to and including the 15th day following the date hereof to require the Issuer to issue up to a further US$40,000,000 of aggregate principal amount of Bonds solely to cover over-allotments, if any. See "Subscription and Sale."

MORGAN STANLEY INTERNATIONAL *WARDLEY CORPORATE FINANCE LIMITED*

CS FIRST BOSTON

Appendix 6

Covering page of the Offering Circular of "CITIC Pacific Finance Ltd - US$200 million Guaranteed Floating Rate Notes", dated 3 Nov 1994.

[redacted] OFFERING CIRCULAR

CITIC PACIFIC FINANCE LIMITED

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$200,000,000

Guaranteed Floating Rate Notes due 1997

guaranteed by

CITIC PACIFIC LIMITED

(incorporated with limited liability under the laws of Hong Kong)

Issue Price: 99.905 per cent.

The U.S.$200,000,000 Guaranteed Floating Rate Notes due 1997 (the "**Notes**") of CITIC Pacific Finance Limited (the "**Issuer**") and guaranteed by CITIC Pacific Limited (the "**Guarantor**") will be issued in bearer form and in denominations of U.S.$50,000, U.S.$100,000 and U.S.$500,000 each. Interest on the Notes will be payable semi-annually in arrear on the Interest Payment Dates (as defined under "Terms and Conditions of the Notes - Interest") falling in May and November in each year commencing on the Interest Payment Date falling in May 1995 and will accrue at the rate which is the sum of 0.50 per cent. per annum and the London interbank offered rate for six-month United States dollar deposits (determined by reference to Telerate Page 3750) as described under "Terms and Conditions of the Notes - Interest". The Notes will mature on the Interest Payment Date falling in November 1997 unless previously redeemed or purchased and cancelled.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange of Hong Kong**") for listing of and permission to deal in the Notes and to The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "**London Stock Exchange**") for the Notes to be admitted to the Official List. This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and constitutes listing particulars issued in compliance with the listing rules made by the London Stock Exchange under section 142 of the Financial Services Act 1986 for the purpose, in each case, of giving information with regard to the Issuer, the Guarantor and its subsidiaries and the Notes. A copy of this document has been delivered for registration to the Registrar of Companies in England and Wales in compliance with section 149 of the Financial Services Act 1986. This document has not been registered with the Registrar of Companies in Hong Kong. Neither the Stock Exchange of Hong Kong nor the London Stock Exchange takes any responsibility for the contents of this document or makes any representation as to its accuracy or completeness, and each such Exchange expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Notes will initially be represented by a temporary global note, without interest coupons, which will be deposited with a common depositary for Morgan Guaranty Trust Company of New York, Euroclear Operations Centre, Brussels Office, as operator of the Euroclear System and Cedel, société anonyme for credit on or about 8 November 1994 to the accounts with such common depositary of such clearance systems. Such temporary global note will be exchangeable for definitive notes, with interest coupons, on or after 19 December 1994 and against customary certification as to non-U.S. beneficial ownership.

HSBC Markets

Paribas Capital Markets

IBJ Asia Limited
Lehman Brothers
Morgan Stanley Asia Limited

J.P. Morgan Securities Ltd.
Merrill Lynch Hong Kong Securities Limited
Sanwa International Finance Limited

Baring Brothers & Co., Limited
CEF Capital Limited
Commerzbank Aktiengesellschaft
Deutsche Bank AG London
Kidder, Peabody International PLC
Swiss Bank Corporation

BOT International (H.K.) Limited
Chase Investment Bank Limited
Daiwa Europe Limited
Goldman Sachs (Asia) Limited
Salomon Brothers International Limited
Union Bank of Switzerland, Hong Kong Branch

3 November 1994

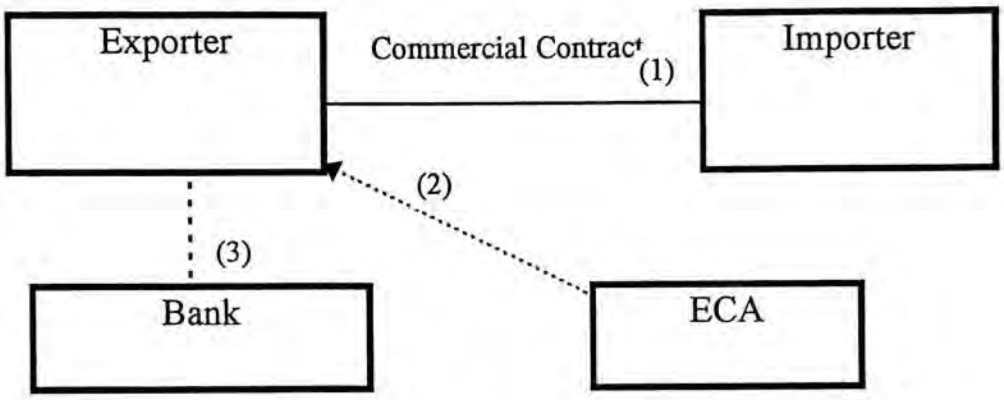
Restriction of minimum capital outlay in relation to total investment of projects in china:

Total Investment (T.I.)	Minimum Registered Capital*
<= US$3 million	70% of T.I.
> US$3 million and <= US$10 million	50% of T.I.
> US$10 million and <= US$30 million	40% of T.I., min. US$5 million
> US$30 million	1/3 of T.I., min US$12 million

* Registered capital is equivalent to paid-up capital in Hong Kong and most other countries

(Source: Provisional Regulation on the Registered Capital and Total Investment of Sino-foreign Joint Venture, by State Industrial Commercial Administration Bureau, March 1987

Structure of Supplier's Credit:



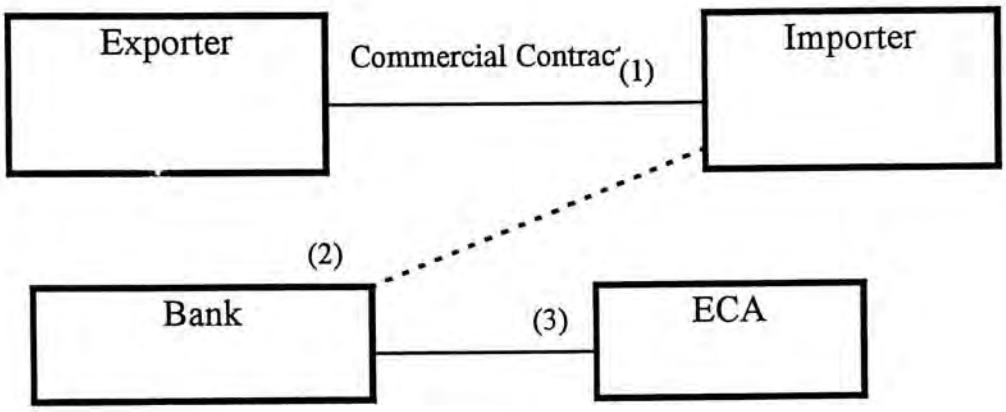
(1). Exporter and importer agree on commercial terms which call for deferred payment evidenced by means of promissory notes or bills of exchange.

(2). Exporter accepts these notes and seeks insurance cover from agency. He is the original beneficiary of the insurance policy for ECA.

(3). Exporter sells obligation to bank and assign rights of policy to the bank.

(Source: P.10, Isabelle J. Kayaloff, "Export and Project Finance - a creative approach to financial engineering", Euromoney Publication)

Structure of Buyer's Credit



(1). Exporter and importer agree on commercial terms.

(2). Exporter's bank and importer agree on financing terms

(3). Exporter's bank seeks insurance and subsidy from its export credit agency and enters into agreement with importer

(Source: P.11, Isabelle J. Kayaloff, "Export and Project Finance - a creative approach to financial engineering", Euromoney Publication)